

Aligning Business Support & Finance Review

In May you invited me to lead a review to examine aligning Welsh Government non-financial support with the financial support that is available for businesses in Wales, in order to maximise the economic impact of both and make it easier for businesses to access finance and be lending ready.

The message I received from the Banks I met with is that they are very much open for business and lending responsibly. However, I also hear that there is a perception in the wider business community that the Banks are not lending to businesses. I believe that the reality lies somewhere in the middle and that the crux of the issue is making Welsh businesses lending ready.

In the course of this Review a scoping exercise was undertaken, as well as a business survey in which 119 responses were submitted. I have also met with a number of stakeholders including the main high street banks and Finance Wales (see appendix 1 for the full list). I focussed the Review on funding requirements of up to £75k for micro-businesses and SMEs, and the issues around investment and lending readiness.

I have found the process to be fascinating and extremely useful, highlighting a number of opportunities to develop the Business Wales Service.

Lending Readiness

As noted in Professor Jones Evans' review the Banks are the primary source of external funding for micro-businesses and SMEs and even when rejected by their own banks they do not usually switch from bank credit to other sources of external finance. The business survey showed that the most popular source of funding after public sector was the Banks and of those respondents that did not successfully obtain finance, the majority did not consider applying to an alternative provider.

Evidence I have heard from the Banks I met with suggests that many business loan applications are declined because the applicant fails to prepare adequately and does not present the business as a viable proposition, with some businesses failing to have a business plan in place, or at most a poor or average quality business plan. In short, these businesses are not lending ready when they apply for finance. To improve their chances of a successful funding application, it is vital that businesses have robust business plans, cash flow forecasts, marketing plans etc. in place before they apply for finance.

Business Wales can play a key role here in supporting businesses through the process of applying for finance. Business Wales can work with businesses to help ensure they are lending ready by providing help and advice on business planning and providing realistic assessments of the business and its finance options. The approach should be two-fold; proactive - businesses come to Business Wales before they apply for finance; and

reactive – Business Wales works with businesses after a funding application has been declined by a bank.

The scoping exercise highlighted a wide range of alternative sources of finance that are available to micro-businesses and SMEs through non-bank lending channels, including:

- Peer-to-peer lending & crowd funding
- Venture capital
- Informal investment / Business Angels
- Seed funding
- Asset finance
- Trade credit
- Invoice discounting & factoring
- Social enterprise / CDFI
- Finance Wales
- Leasing

It became evident to me that many businesses are not fully aware of the range of financial options available to them, or unable to decide which is the best option to meet their business needs. The issue of low awareness of alternative sources of finance is highlighted in Professor Jones Evans' stage 1 report. The business survey also showed a lack of awareness and understanding of alternative sources of finance amongst respondents. An important part of being lending ready is having an understanding of the different types of finance and being able to make an informed choice about which is the most appropriate source at the right stage of the business cycle, whether that is a bank loan or alternative source of finance.

I feel that Business Wales has a key role to play in further raising awareness of the full range of financial sources and options available to businesses. There are a number of ways this can be achieved such as refreshing and developing Access to Finance workshops by ensuring there is flexibility to keep the content relevant and up to date. Also, effective sign posting to the Finance Zone and Finance Locator on www.business.wales.gov.uk, again ensuring content is relevant and up to date. Business Wales advisors should have a good working knowledge of www.business.wales.gov.uk so they can effectively guide and assist businesses to access the Finance Zone and Locator. The ongoing development of sketch books and online tutorials on www.business.wales.gov.uk are useful tools for businesses and reach a wide audience to raise awareness of the options available for further exploration.

Underpinning this is ensuring that Business Wales advisors have a good working knowledge of the range of finance options and sources available, and the ability to discuss the merits respectively in an impartial way as they apply to each individual business. In some case this will require a degree of 'up skilling' of Business Wales advisors, as well as ongoing training to maintain the level of knowledge required.

Recommendation 1: Business Wales should continue to develop the work they do with businesses who are seeking funding to make them 'lending ready', including developing robust business plans and holding informed discussions on the range of available financial sources and options.

Recommendation 2: Business Wales should work with key partners to ensure effective signposting to the www.businesswales.gov.uk Finance Zone and Finance Locator, and keep the content relevant and up to date.

Recommendation 3: Refresh Access to Finance workshop and ensure flexibility to keep the content relevant and up to date including a key focus on alternative finance models.

Recommendation 4: Continue to 'up skill' Business Wales advisors through regular ongoing development and training so they have a good working knowledge of the range of financial sources and options.

Brand Awareness of Business Wales

The perception of the stakeholders I met with is that there is still confusion in the marketplace on how to access business support and that brand awareness of Business Wales is relatively low, in particular amongst the Banks' business customers. In the recent 'Wales Omnibus Survey', awareness of Business Wales amongst the general population was at 33%, although awareness amongst the business community in the 'Business Omnibus Survey' was higher at 53%. Only 20% of respondents in the business survey felt that businesses are generally aware of the support that is available, although 73% had heard of Business Wales. It is important that ongoing marketing and promotion takes place to strengthen the position of Business Wales as the 'one stop shop for business in Wales' and to clearly demonstrate how Business Wales can help and support businesses to apply for finance.

To build and retain confidence in the Business Wales brand it is vital that high quality business support is provided in a consistent manner. The overall impression from the stakeholders I met with is that Business Wales is respected and provides a valuable service to Welsh businesses. However, anecdotal evidence that I have heard from some individuals is that the quality of advice can vary. Although much of the support and advice provided to businesses is very good, a recent Business Wales tracking survey noted that 92% of respondents were very or quite satisfied with the quality of the advice they had received, there is always room for improvement.

Continuous development and training is key here, and it is important to build on the existing CPD programme in place for advisors. Myself and the Strategic Board are currently working with your officials on a number of initiatives to enhance and develop the Business Wales Service, including a skills and quality audit, and I would suggest that the drive in place to enhance the quality of the workforce continues, along with ongoing quality assurance

through tight contract management and agreed training plans for Business Wales personnel, as well as continued monitoring of customer satisfaction.

Recommendation 5: Continued and targeted promotion and awareness raising of Business Wales amongst micro-businesses and SMEs, financial institutions and alternative finance providers.

Recommendation 6: Ongoing quality assurance through contract management and agreed training plans linked to the CPD programme, as well as monitoring of customer satisfaction.

Referrals

I am told that some of the Banks do have existing relationship with and make referrals to Business Wales; however this is on an ad hoc basis and very much dependent on individuals within the organisation. I share the view of Professor Dylan Jones Evans that closer working relationships between Business Wales (and the wider Sector and Business teams) and key partners from financial institutions, alternative finance providers and organisations such as the National Association of Commercial Finance Brokers (NACFB) would support knowledge transfer and improve the service provided to businesses. This could be achieved through establishing named contact points and holding regular regional engagement meetings.

I am aware that some work has been done to strengthen links with the Banks, and I support the ongoing efforts to establish formal referral mechanisms between Business Wales and financial institutions. I believe that it is important that any process implemented has clear rules of engagement for both sides and is monitored and evaluated on an ongoing basis.

When a business loan application is declined the Bank in question contacts the applicant to explain the reasons why and to outline the appeals process. However, the letter does not direct the applicant to Business Wales for further support. There is a clear gap here and a lack of 'joined up' service provision. With agreement from the Banks, I see this as a good opportunity to signpost the applicant to Business Wales for assistance and support. It would be important here to monitor the effectiveness of the support provided by Business Wales to see if these businesses then go on to successfully obtain finance and from which source.

It is encouraging to note that there is clear willingness from the private sector to work closely with Business Wales to provide businesses with a 'joined-up' service.

Recommendation 7: Continue to establish formal referral mechanisms and SLAs between Business Wales and the Banks.

Recommendation 8: Strengthening links between Business Wales and key partners in financial institutions and alternative finance providers through named contact points and regular regional meetings.

Recommendation 9: Encourage the Banks to routinely signpost customers to Business Wales and include the Business Wales helpline and website in business loan rejection letters.

Access to Finance Support from Business Wales

In 2013 there were 219,410 enterprises in Wales, 99.3% were micro-businesses and SMEs employing 60.7% of the people working in the private sector. The vast majority of Welsh businesses, 94.6%, are micro-businesses employing less than 9 people, and of these a high proportion are 'lifestyle' businesses with either no or low growth ambition. For these types of businesses I believe the mainstream support provided by Business Wales is appropriate, and this view was echoed by the stakeholders I met with.

However, for a small proportion of businesses the mainstream business support offered by Business Wales may not fully realise the growth potential the business is capable of, in particular around access to finance support. I believe here lies a gap in the current provision and therefore I propose a segmented approach moving forward:

- Mainstream business support for businesses that are not looking at significant growth.
- Relationship Managers with financial expertise for businesses with growth potential.
- Specialist bespoke support for businesses with high growth potential.

In line with the proposed vision for Business Wales for 2016-2020, businesses with growth potential would sit within the Relationship Management function. I believe that for these businesses with growth potential, a greater level of financial knowledge and understanding is required to provide more complex and detailed access to finance support. Therefore it is crucial that financial expertise is part of the agreed skillset when recruiting Relationship Managers. If this approach is introduced then mainstream Business Wales advisors could also utilise the financial expertise of local Relationship Managers as a 'go to' resource to develop their own skills and add value for mainstream customers.

For businesses with high growth potential, I think it is important to recognise that Business Wales, outside of small pockets of expertise, does not currently have the right skillset or expertise to deliver the appropriate high level advice required for these businesses. In these instances I believe Business Wales should refer outside of the service to the private sector, which is best placed to give the high level specialist support required by these businesses. This would enable the private sector to work with the business to design a bespoke package of support and access private sector funding utilising experts and professionals from across the UK, this could take the form of a 'Tiger Team' including financial specialists and brokers, patent lawyers, marketers, accountants etc. A key element here is the ability to identify those businesses with high growth potential and also when it is appropriate to refer these

businesses to the private sector. I would suggest that trigger points are agreed to help identify these businesses and this could link to the accelerated growth service proposed in the vision for 2016-2020.

Recommendation 10: Introduce segmented high level access to finance support for Welsh businesses with growth potential.

Summary

In summary I believe that what Welsh micro-businesses and SMEs really need is help and support to make them lending ready, and a better understanding of the range of financial options so they can make an informed choice on which type and source of finance is best for their individual business needs. Financial institutions, alternative finance providers, brokers and trade associations are all part of the solution. Business Wales has a key role to play in supporting micro-businesses and SMEs through the process of applying for finance, in particular by:

- helping businesses in Wales become lending ready;
- developing closer links and referral mechanisms with the range of financial institutions and providers;
- raising awareness of Business Wales and what it has to offer for Welsh micro-businesses, SMEs and financial institutions and providers; and
- providing segmented high level access to finance support for growth businesses.

I believe that by aligning Welsh Government non-financial support with the finance support that is available, and by making Welsh businesses lending ready so it is easier for them to access the finance they require, we will maximise economic impact and benefit the Welsh economy as a whole.

Summary of Recommendations

1. Business Wales should continue to develop the work they do with businesses who are seeking funding to make them 'lending ready', including developing robust business plans and holding informed discussions on the range of available financial sources and options..
2. Business Wales should work with key partners to ensure effective signposting to the www.businesswales.gov.uk Finance Zone and Finance Locator, and keep the content relevant and up to date.
3. Refresh Access to Finance workshop and ensure flexibility to keep the content relevant and up to date including a key focus on alternative finance models.

4. Continue to 'up skill' Business Wales advisors through regular ongoing development and training so they have a good working knowledge of the range of financial sources and options.
5. Continued and targeted promotion and awareness raising of Business Wales amongst micro-businesses and SMEs, financial institutions and alternative finance providers.
6. Ongoing quality assurance through contract management and agreed training plans linked to the CPD programme, as well as monitoring of customer satisfaction.
7. Continue to establish formal referral mechanisms and SLAs between Business Wales and the Banks.
8. Strengthening links between Business Wales and key partners in financial institutions and alternative finance providers through named contact points and regular regional meetings.
9. Encourage the Banks to routinely signpost customers to Business Wales and include the Business Wales helpline and website in business loan rejection letters.
10. Introduce segmented high level access to finance support for Welsh businesses with growth potential.

Annex 1 – List of Stakeholder Meetings

- Barclays
- Business in Focus
- Business Wales Consortium Board
- Business Wales Strategic Board
- C2It Commercial Collections
- Charity Bank
- Chartered Institute of Marketing
- Finance Wales
- Finance Wales – Micro Loan Fund team
- HSBC
- HWB Cymru
- Lloyds
- Natwest
- National Association of Commercial Finance Brokers (NACFB)
- Principality Building Society
- Professor Dylan Jones Evans
- Robert Owen Community Banking
- Santander
- Versatile Connections

- Wales Co-operative Centre
- Welsh Government – Financial & Professional Services Sector